



IMPACT OF COVID-19 ON ECONOMY

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Abstract

Covid-19 pandemic is a hazardous to mankind and its is rapidly reaching the nook and corner of the world. Irrespective of caste, creed, national boundaries and even economic and nuclear power, it has reached to more than 193 countries. It has created an acute pullback on global supply chain, national and international trade and business affairs and the economy at large. The economy started to shrink, many became jobless, death toll is increasing and governments are struggling to find an apt solution to safeguard people from this outbreak. This research paper sketches an over view of covid-19 and its impact on economy particularly on the economy of China, US and India. They also recommend certain suggestions and recommendations to uplift the weakening economy. This research paper also highlights that the industries like tourism, hospitality, air transportation, commerce, trade, manufacturing, MSMEs are the worst affected sectors due to the outburst of covid-19. The early estimates predict that if the covid-19 becomes a global epidemic, most of the major economies will lose at least 2.4 percent of their value of gross domestic product in 2020.

Keywords

Covid-19, economy, lockdown, unemployment, stimulus

1. Introduction

It is rare history in the world that, irrespective of wealth, creed, caste, colour, religion and language, as one entity, the entire world has been locked down to prevent the spread of Covid-19. We may question ourselves that whether the science, technologies even the religions has failed or not. Absolutely not! It is the time for retrospection, invention and reconstruction of the entire world with little more humanity, concern and even a personal relation with the creator. The present scenario has flattened the growth curve of every country in all aspects. As a developing country, India is facing the greatest crisis since its independence and due to the lockdown the Indian economy is, as expected, on complete bed rest. The irrefutable fact is that both central and state governments are trying their level best to safeguard the citizen from Covid-19 and economic crash.

2. What is COVID-19?

Coronavirus disease, also known as COVID-19, is a newly discovered infectious disease. It mostly affect the elderly people especially with severe health problems like chronic respiratory disease, diabetes, cardiovascular disease, cancer, etc. It may affect people those who have less immunity power. The newly discovered disease spreads primarily through droplets of saliva, cough and sneeze of infected person. The best ways to prevent covid-19 are social distancing, regular hand wash with soap, rubbing hand with sanitizer without touching face, eyes and nose with hands.

3. Objectives of the Study

- a) To understand the overall effects of the coronavirus since November, 2019
- b) To assess the immediate impact on Indian economy due to unforeseen lockdown
- c) To sketch out the most important affected segments of Indian economy
- d) To suggest noble recommendation to uplift the Indian economy from the covid-19
- e) To predict the economic situation of India after Covid-19

4. Assessment of Impact of Lockdown: A global financial crisis

The world economic conditions are dipping down hurriedly, since the entire world, almost 194 countries, is captured by the outburst of covid-19. During the latest conference of G20, held for both finance ministers and central bank governors, the managing director of the International Monetary Fund Kristalina Georgieva rightly mentioned that the human costs of the Coronavirus pandemic are already immeasurable and all countries need to work together to protect people and limit the economic damage¹. For this, as she mentioned, everyone has to work together to guarantee good health, extraordinary fiscal actions by governments, capital in-and-outflows.

The impact of lockdown in world-wide is also unpredictable. At the very outlook, it is clear the world economy is also going to affect deadly from many perspectives. There is an alarming report from nook and corner of various economics studies that the predicted loss to the world economy will be trillions of dollars. United Nations Conference on Trade and Development (UNCTAD)² has also predicted that the drop in investment on overseas for the next two years could be 2 to 3 trillion dollars.

4.1 Financial Crisis on Chinese Economy

China was the epicentre of Covid-19 in the last quarter of 2019 and reports³ says that beginning of the year 2020 itself many became jobless and bankruptcies. Due to the outbreak the domestic and overseas demand has come down and badly it affected the production of both domestic and multinational companies

¹ Imf.org

² livemint.com

³ weforum.org

and resulted in a shrinking stage of GDP. The recent studies concluded the impact of Covid-19 on the economy of China as follows⁴;

Economic Indicator	Year-over-year Change (Jan-Feb 2020)
Investment in Fixed Assets*	-24.5%
Retail Sales	-20.5%
Value of Exports	-15.9%
Industrial Production	-13.5%
Services Production	-13.0%

**Excluding rural household investment*

As the Covid-19 spreads throughout the world within three months, the various activities of different economies of various nations also considerably slowdown on various indicators like investments, sales, imports and exports, industrial and service sector, etc.

4.2 Financial Crisis of US Economy

Unfortunately, the US administration under Donald Trump has been trying to implement precautionary steps to prevent Covid-19, without any national lockdown since the middle of the first quarter of 2020. The recent statistics shows that, the decision of the US administration was erroneous, because both active and death cases of corona has been increasing rapidly. As the novel coronavirus rips through the United States of America, the economic effect is being felt far beyond the prediction because the latest report⁵ says that almost 3.28 million American applied for unemployment benefits. The main impacts on US economy are freezing in arts, entertainment, recreation, restaurant, consumption, manufacturing, agriculture

4.3 Financial Crisis on Indian Economy

On the call of the Prime Minister Narendra Modi, to prevent from Covid-19, except the essential services like grocery, gas, electricity, medical, etc. all other sectors have been completely locked down since late evening of 24th March 2020 for 21 days. Nobody knows how grave the days of health emergency and the depth of financial crisis yet to come. According to the latest economic forecast of Dun & Brandstreet⁶, the covid-19 lockdown will be the leading cause for significant disruption in the multiple sectors of Indian economy such as tourism, agriculture, automotive, entrepreneurs, manufacturing, textile, etc. The lockdown desperately affect the rural, domestic, national and international production and distribution of goods and services except the essential goods and services declared by the central government. It may also lead to depression, unemployment, lowering of industrial output, decline in profit, etc. and finally hit the GDP for the current year and the year/s yet to come. The magnitude of the negative

⁴ Weforum.org

⁵ fpri.org

⁶ dnb.co.in

impact on economy cannot be predicated at this stage, however it is confirmed that the impact will be severe than the demonetization period and the period of new system of GST.

4.4 Financial Crisis on other countries

Other countries are also feeling the pinch of slowdown of economy due to the hardest hit of Covid-19. The Canadian government reported that almost one million people have applied for unemployment benefits. This is the same situation in many other countries, because the unemployment is shooting up far faster than the economic recession period of 2008. The developed countries like Spain, Italy, Germany, France, etc. are at the blow of damage on respective economies.

5. Impact on tourism and hospitality

Tourism industry is being considered as one of largest industry (considered as the second largest) in the world⁷ with varied segments like accommodation, transportation, entertainment and attractions. The widespread fear and hitches of lockdown rapidly increasing day by day and the purchasing behaviour and the confidence on tourism of consumers have significantly comedown. As a result, many became jobless and income level of investors on such industry has come down. The world economic forum⁸ reported that Covid-19 could cut 50 million jobs worldwide in travel and tourism industry alone and probably Asia will become the worst continent among others and will take minimum of 10 months to come bank on the usual track. It has created catastrophic consequences on hospitality industry because the hotel industries are facing a large scale downsizing in the sustainable tourism industry. Government restrictions, sharp drop in tourists, widespread flight cancellation and supply chain disruptions are some of the visible consequences of covid-19 on the tourism and hospitality industry.

6. Impact on global air transport industry

As per the latest update of International Air Transport Association (IATA), owing to the strict travel restrictions, the revenue of industry is in decline a 38% as compared to 2019⁹ and a gradual recovery is possible only at the end of the year or in 2021. This scenario leads to deeper revenue hit and the airlines with narrow profit margin will suffer financial recession in 2020 and even in the following years. A general view¹⁰ on the impact of Covid-19 on global air transport industry is given below.

⁷ statista.com

⁸ weforum.org

⁹ iata.org

¹⁰ iata.org

Region	% of change in Revenue Passengers Kilometres (RPKS) 2020 v/s2019
Africa	-32%
Asia Pacific	-37%
Europe	-46%
Latin America	-41%
Middle East	-39%
North America	-27%
Industry	-38%

7. Impact on commerce, trade and industry

The present scenario leads to a downward momentum in commerce, trade and industry. The lockdown period of 21 days has done a series of damage to the workforce of different sectors and led to shutdown of commerce, trade and industry. For this the entire sectors has likely to pay a high price, which is not predictable at this stage. The reports¹¹ says that in February 2020, India' export to China has slumped 41% whereas the import decline by more than 10%. If the lockdown and the pandemic is not settled soon, it is going to affect cotton, iron ore, petroleum products, imports of pharmaceuticals, automobiles and consumer durables.

8. Impact on Micro, Small and Medium Enterprises (MSMEs)

It is vital that the MSMEs, a key component of Indian Economy, has to be protected from the trap of Covid-19. The wake of covid-19 has structured and hampered the functions of MSMEs in many ways. Closure of travel agencies, malls, theatres, etc. are some of the examples of it. Multiple actions like extension of bank loans, remittance of GST, special funds, etc. has to be sanctioned as relief measures to overcome this crisis.

9. Recommendations and suggestions for recovery

Some forecasts predicts that by the third quarter of 2020, a global as well as nation-wide recovery is possible in accordance with the various programs of economic stimulus, policies, packages and even construction of consumer confidence.

- a) A welfare, relief and stimulus packages have to be announced by central and state governments to strengthen the unorganized sectors like daily wage workers, street vendors, petty shopkeepers, poor and the marginalized of rural and urban sector. Both central and state governments also has to special schemes to health professionals, senior citizens, widows, transgenders, self-help groups, etc.
- b) Incentives to people of agricultural and unorganised sectors, small scale labours and to the jobless due to the covid-19

¹¹ Livemint.com

- c) Provide loans to small and medium scale entrepreneurs and industries to avoid business layoffs.
- d) Lowering the rate of interest on different loans, raising the bar of interest rate of all kinds of savings, deposits and investments, softening the terms and proceedings of loans, etc.
- e) Offering additional liquidity to the financial markets.
- f) Tweaks on tax policies are essential to bring back the economy during the post-pandemic period.
- g) Offer better credit facilities to Micro, Small and Medium Enterprises (MSMES)
- h) Cutdown in reserve ratio of private banks so that it may aggressively offer better lending options.

10. Conclusion

Unpredictable events may fetch unforeseen outcomes-the Covid-19 may change the entire phase of the world. The Covid-19 has created a extreme financial crisis globally. The essential services made few people to work while many were forced bear the consequences of Covid-19. The worldwide restrictions and social distancing can stop the spread of the virus. Heroic efforts and meticulous planning and execution along with financial and administrative experts is very much essential and inevitable to bring back the economy, national and global, to the normal track.

